

Message Text

UNCLASSIFIED

PAGE 01 BONN 13758 01 OF 04 231740Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01 AGRE-00
/112 W

-----020339 231847Z /45

R 231711Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0864
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 13758

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 22)

REF.: BONN 13364

1. OPPOSITION TO EXPANSION OF EXPORT SUPPORT:
ACCORDING TO PRESS REPORTS, PROPOSALS TO EXPAND SUPPORT
FOR GERMAN EXPORTS (SEE BONN 13364) THROUGH EITHER AN
EXPANSION OF THE HERMES GUARANTEE CEILING OR BY UTILIZ-
ING BUNDESBANK FOREIGN EXCHANGE RESERVES (PRESUMABLY TO
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13758 01 OF 04 231740Z

GRANT DIRECT CREDITS TO EXPORTERS) ARE EXPECTED TO EN-
COUNTER CRITICISM BOTH FROM WITHIN THE GOVERNMENT AND
FROM FOREIGN COMPETITORS. THE ECONOMICS MINISTRY, WHICH
REPORTEDLY HAS PREPARED AN INTERNAL REPORT ON HOW CERTAIN
DEPRESSED SECTORS OF THE GERMAN ECONOMY COULD BENEFIT
FROM INCREASED EXPORT SUPPORT, BELIEVES NONETHELESS
THAT THIS OPTION COULD BE CONSIDERED AT THE SEPTEMBER 14

MEETING ON THE 1978 FEDERAL BUDGET. HOWEVER, ACCORDING TO A SPOKESMAN FROM THE ECONMIN THE SIZE OF ANY INCREASE IN EXPORT SUPPORT WOULD LIKELY BE RELATIVELY SMALL DUE TO THE "MORE CONSERVATIVE" POLICIES OF THE FINANCE MINISTRY. THE FINMIN IS REPORTEDLY RELUCTANT TO INCREASE THE SCOPE OF EXPORT SUPPORT FACILITIES AT PRESENT BECAUSE OF THE FRG'S GROWING EXPOSURE IN COUNTRIES WITH RELATIVELY HEAVY DEBT LOADS AND BECAUSE OF THE GROWING NUMBER OF LARGE PROJECTS. THE ECONMIN SPOKESMAN ALSO ALLUDED TO THE POTENTIAL FOR ADVERSE REACTION FROM COMPETING COUNTRIES AS A REASON FOR HOLDING DOWN THE SIZE OF AN INCREASE IN EXPORT SUPPORT IF ANY SUCH INITIATIVE IS APPROVED.

2. CAPACITY UTILIZATION DECLINES:

ACCORDING TO THE GERMAN INSTITUTE FOR ECONOMIC RESEARCH (DIW) IN BERLIN, CAPACITY UTILIZATION HAS DECLINED SO FAR THIS YEAR. DIW ESTIMATES, WHICH DIFFER METHODOLOGICALLY FROM THE IFO SERIES REGULARLY REPORTED BY THE EMBASSY, PLACE SEASONALLY ADJUSTED CAPACITY UTILIZATION IN THE MANUFACTURING SECTOR DURING THE SECOND QUARTER OF 1977 AT 87.8 PERCENT OF THE MAXIMUM. THIS COMPARES WITH RATES OF 88.6 PERCENT FOR THE FIRST QUARTER AND 89.2 PERCENT FOR THE FOURTH QUARTER OF 1976. THE LATTER HAD COME CLOSE TO THE HIGH 91.5 PERCENT RECORDED IN 1973 AND SUBSTANTIALLY EXCEEDED THE SECOND QUARTER 1975 LOW UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 13758 01 OF 04 231740Z

OF 79 PERCENT.

3. CENTRAL BANK MONEY:

IN JULY, CENTRAL BANK MONEY (CBM), SEASONALLY ADJUSTED INCREASED BY DM 1.4 BILLION BRINGING THE TOTAL VOLUME UP TO DM 125.9 BILLION. IN JUNE, CENTRAL BANK MONEY HAD INCREASED BY DM 1.5 BILLION FOLLOWING A DM 1.0 BILLION INCREASE IN MAY. ASSUMING FOR THE LAST FIVE MONTHS OF 1977 THE SAME RATE OF CBM GROWTH AS IN THE FIRST SEVEN MONTHS OF THE YEAR, CBM WOULD SHOW AN 8.6 PERCENT INCREASE FOR 1977 (AVERAGE 1977 OVER AVERAGE 1976).

4. CDU/CSU TAX EXPERT ADVOCATES REVOCATION OF 1978

VALUE ADDED TAX INCREASE:

CDU/CSU BUNDESTAG MEMBER HAEFELE HAS REQUESTED THAT THE GOVERNMENT REVOKE THE RECENTLY APPROVED VALUE ADDED TAX (TVA) INCREASE OF 1 PERCENTAGE POINT WHICH

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 13758 02 OF 04 231726Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01 AGRE-00
/112 W

-----020148 231848Z /45

R 231711Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0865
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 04 BONN 13758

BECOMES EFFECTIVE 1978 (SEE BONN 11872). IN HIS VIEW,
THE TVA INCREASE NOT ONLY WILL INTENSIFY WAGE AND PRICE
PRESSURES BUT ALSO THREATENS TO DAMPEN AGGREGATE DE-
MAND AT A TIME WHEN ECONOMIC STIMULATIVE MEASURES
SUCH AS INCOME TAX RELIEF, ARE UNDER ACTIVE CONSIDER-
ATION (BONN 13364).

5. MONEY MARKET:
CONDITIONS ON THE GERMAN MONEY MARKET REMAINED BASI-
CALLY UNCHANGED DURING THE REPORTING WEEK. FOR THE
PERIOD AUGUST 16-22 FRANKFURT INTER-BANK MONEY RATES
DEVELOPED AS FOLLOWS:

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13758 02 OF 04 231726Z

CALL MONEY ONE-MONTH THREE-MONTH

AUGUST 16	3.95-4.10	4.00	4.00
17	3.95-4.10	4.00	4.00
18	3.95-4.10	4.00	4.00
19	3.95-4.10	4.00	4.00
22	4.00-4.15	4.10	4.10

6. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS					
SPOT DOLLARS		(IN PCT. PER ANNUM)			
OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MOS	

AUG 16	2.3400	2.3411	2.3405	-2.5	-2.8
17	2.3320	2.3259	2.3287	-2.1	-2.7
18	2.3325	2.3376	2.3295	-2.2	-2.6
19	2.3250	2.3272	2.3280	-2.6	-2.6
22	2.3250	2.3195	2.3215	-2.4	-2.6
23	2.3185	2.3227	N.A.	N.A.	N.A.

7. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD AUGUST 8-15 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 86.8 BILLION. ACCORDING TO THE BUNDESBANK, THE DECLINE WAS DUE PARTLY TO "MARKET-SMOOTHING" INTERVENTIONS ON FOREIGN EXCHANGE MARKETS. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 209 MILLION AND SDR HOLDINGS BY DM 18 MILLION WHILE FOREIGN LIABILITIES INCREASED BY ABOUT DM 170 MILLION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 13758 02 OF 04 231726Z

8. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM 1.6 BILLION. FACTORS REDUCING LIQUIDITY WERE THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES, A DM 0.6 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING FIRST PAYMENTS FOR THE MINOR MID-AUGUST TAX DATE, AND A DM 2.3 BILLION INCREASE IN BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. (IN THE PERIOD AUGUST 1-15, THE BANKS' RESERVE HOLDINGS, ON AVERAGE PER DAY, AMOUNTED TO DM 45.1 BILLION WHICH MAY STILL BE SOMEWHAT BELOW AUGUST RESERVE REQUIREMENTS.)

FACTORS INCREASING LIQUIDITY WERE THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 1.5 BILLION) AND DM 0.2 BILLION OF RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK.

THE BANKS FINANCED THE DECLINE IN LIQUIDITY
BY INCREASING LOMBARD BORROWINGS BY DM 1.9 BILLION TO
DM 2.1 BILLION AND SPECIAL REDISCOUNT BORROWINGS BY
DM 0.9 BILLION TO DM 5.4 BILLION. AT THE SAME TIME
THEY REDUCED NORMAL REDISCOUNT BORROWINGS BY DM 1.2
BILLION TO DM 15.0 BILLION. THUS, ON AUGUST 15 THE
BANKS' TOTAL INDEBTEDNESS TO THE BUNDESBANK AMOUNTED
TO DM 22.4 BILLION AS COMPARED WITH DM 20.8 BILLION ON
AUGUST 7.

9. BOND MARKET:
ON THE MARKET FOR DOMESTIC BONDS PRICE DECLINES
BEGAN FOLLOWING THE AUGUST 17 ISSUE OF THE DM 800
MILLION FEDERAL RAILWAY LOAN, THE FIRST 6 PERCENT LOAN

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 13758 03 OF 04 231728Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01 AGRE-00
/112 W

-----020180 231848Z /45

R 231711Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0866
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 03 OF 04 BONN 13758

OFFERED SINCE 1969 (SEE BONN 13364). APPARENTLY SOME
INVESTORS NOW FEEL THAT THE DECLINE IN THE COUPON OF

DOMESTIC BONDS TO 6 PERCENT HAS AT LEAST TEMPORARILY, STOPPED THE FALL OF BOND YIELDS. CONSEQUENTLY, INVESTORS REPORTEDLY REALIZED CAPITAL GAINS BY SELLING BONDS. IN ADDITION, INDIVIDUAL INVESTORS REFRAIN FROM BOND INVESTMENTS SINCE THEY PREFER INVESTMENTS IN FEDERAL SAVINGS BONDS. CURRENTLY, SUCH BONDS CARRY YIELDS OF 5.98 PERCENT (6 YEAR BONDS; ANNUAL INTEREST PAYMENTS) AND 6.24 PERCENT (7 YEAR BONDS; ACCUMULATED INTEREST).

ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF DOMESTIC BONDS, BROKEN DOWN BY REMAINING MATURITY, ARE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13758 03 OF 04 231728Z

AS FOLLOWS:

REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
AUGUST 19	4.35	5.00	5.55	5.90	6.25	6.35
AUGUST 12	4.35	4.95	5.50	5.85	6.20	6.30

ON THE MARKET FOR FOREIGN DM BONDS THE FOLLOWING THREE ISSUES HAVE BEEN ANNOUNCED: THE MEXICAN COMISION FEDERAL DE ELECTRICIDAD WILL OFFER A DM 60 MILLION LOAN (COUPON 7 PERCENT, ISSUE PRICE 99 1/2, MATURITY 5 YEARS), THE BRASILIAN CENTRALE ELECTRICITAS BRASILEIRAS (ELECTROBAS) DM 150 MILLION (COUPON 7 PERCENT, ISSUE PRICE 100, AVERAGE MATURITY 8 YEARS), AND THE AUSTRIAN PYHRN AUTOBAHN A.G. DM 50 MILLION (COUPON 6 1/4 PERCENT, AVERAGE MATURITY 9 1/2 YEARS). IN ADDITION THE DRESDNER BANK IS REPORTEDLY PREPARING A PRIVATE PLACEMENT OF BONDS OF DM 100 MILLION FOR THE GOVERNMENT OF AUSTRIA (COUPON PROBABLY 6 PERCENT, MATURITY 10 YEARS).

10. BASEL RESEARCH INSTITUTE PAINTS DIM PICTURE OF GERMAN LABOR MARKET PROSPECTS:

IN A STUDY PREPARED FOR THE BADEN-WUERTTEMBERG MINISTRY OF AGRICULTURE, THE PROGNOS A.G., BASEL, ESTIMATED THAT UNEMPLOYMENT IN GERMANY IS LIKELY TO REMAIN HIGH IN COMING YEARS AND COULD AVERAGE 1.5 MILLION, OR 5-6 PERCENT, IN 1980. THE SUBSEQUENT DECADE, ACCORDING TO THE INSTITUTE, WILL BRING SOME RELIEF, BUT EVEN BY 1990, UNEMPLOYMENT IS STILL EXPECTED TO EXCEED THE ONE MILLION MARK. MEANWHILE, THE STATE GOVERNMENT IN STUTTGART HAS REPORTEDLY REFERRED TO THE PROGNOS UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 13758 03 OF 04 231728Z

UNEMPLOYMENT ESTIMATES AS "UNREALISTICALLY HIGH".

11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK DATA

MARCH APRIL MAY JUNE

RETAIL SALES VOLUME
(1970 EQUALS 100) 120 111 117 118
VOLUME OF TRADE
(DM BILLION)
EXPORTS 17.12 16.31 16.24 17.14
IMPORTS 14.84 14.15 13.84 14.56
BUILDING PERMITS FOR
HOUSING UNITS

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 13758 04 OF 04 231731Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 DODE-00 PA-02 PRS-01 AGRE-00
/112 W
-----020220 231849Z /45

R 231711Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0867
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 04 OF 04 BONN 13758

(1970 EQUALS 100)	73	73	79	74
APRIL	MAY	JUNE	JULY	

LIVING COSTS

(1970 EQUALS 100)	145.3	145.9	146.5	146.9
-------------------	-------	-------	-------	-------

INDUSTRIAL PRODUCER

PRICES

(1970 EQUALS 100)	143.9	144.2	144.6	--
-------------------	-------	-------	-------	----

AGRICULTURAL PRODUCER

PRICES

(1970 EQUALS 100)	145.3	145.5	146.0	--
-------------------	-------	-------	-------	----

NON-SEASONALLY ADJUSTED FIGURES

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 13758 04 OF 04 231731Z

(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL 1/)

APRIL	MAY	JUNE	JULY
-------	-----	------	------

INDUSTRIAL PRODUCER

PRICES	3.4	3.0	2.7	2.2
--------	-----	-----	-----	-----

AGRICULTURAL PRODUCER

PRICES	-6.1	-3.1	-0.8	--
--------	------	------	------	----

IMPORT PRICES 2/	5.2	3.6	1.6	--
------------------	-----	-----	-----	----

EXPORT PRICES 2/	2.1	1.5	1.1	--
------------------	-----	-----	-----	----

NEGOTIATED HOURLY WAGES

IN INDUSTRY	7.3	7.6	7.5	--
-------------	-----	-----	-----	----

INSOLVENCIES

TOTAL	738	802	--	--
-------	-----	-----	----	----

PERCENT CHANGE	-13.2	17.8	--	--
----------------	-------	------	----	----

NEWLY-LICENSED PASSENGER

CARS

THOUSANDS	261.3	252.8	237.8	198.7
-----------	-------	-------	-------	-------

PERCENT CHANGE	2.2	11.1	13.0	22.1
----------------	-----	------	------	------

1/ UNLESS INDICATED OTHERWISE.

2/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE
DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF
GOODS.

MEEHAN

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN13758
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770304-0634
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770835/aaaabcyr.tel
Line Count: 432
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4a076956-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BONN 13364
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1521588
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 22)
TAGS: EFIN, ETRD, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/4a076956-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009